

## VOLUME TWO: ECONOMIC SECURITY EXECUTIVE SUMMARY

The three decades of economic growth in the Asia-Pacific region demonstrated to the world that economic prosperity through international trade and investment improves the domestic and international security for all participants.

- In 1973, the Asia-Pacific region accounted for just 15% of the world's economic output. By 2000, the region's share was 27% of world output when measured on an exchange rate basis.
- Today, when measured on a purchasing power basis, the Asia-Pacific region is home to the world's second and third largest economies—China and Japan.

**The region's growth** reflects a combination of quantitative and qualitative factors. Also, when growth falters, the mismanagement of these factors is evident. These factors include:

- Relatively open economies characterized by vigorous trade and investment ties with the United States, Japan, and Europe.
- High inflows of capital and labor to modern, internationally-oriented sectors.
- High rates of national saving and aggressive investment in physical and human capital.
- Stable macroeconomic policies conducive to investment and commercial activity.
- Pro-market government interventions intended to steer resources into more productive activities.
- Reliance on cultural factors that value education and a strong work ethic.

**Trade, investment, and aid** are like steel girders in a bridge, buttressing the economies of the Asia-Pacific region and interlocking their common security.

- Developing Asia produced 20% of the world's total exports in 2000, while the United States exported 13% and Japan produced 8%.
- Asia-Pacific trade is multi-polar in nature, with neither the United States nor Japan being the single, dominant trade partner of Developing Asia.

Figure A

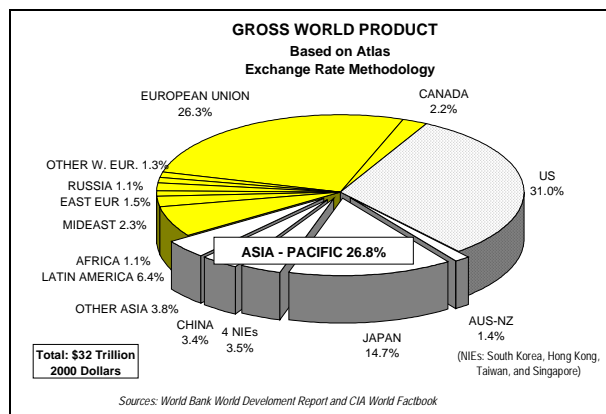


Figure B

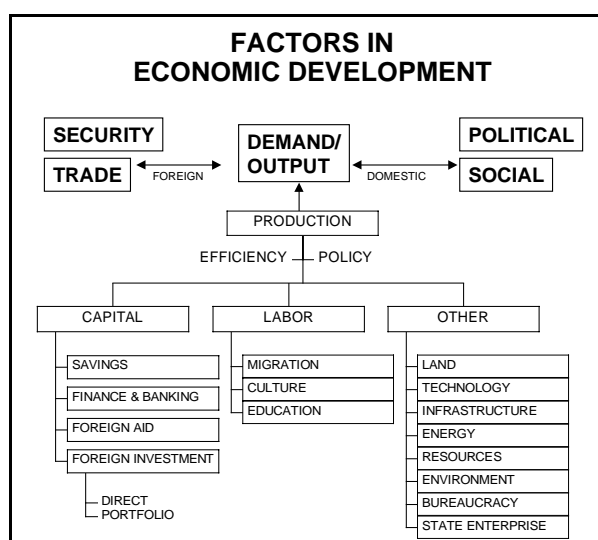
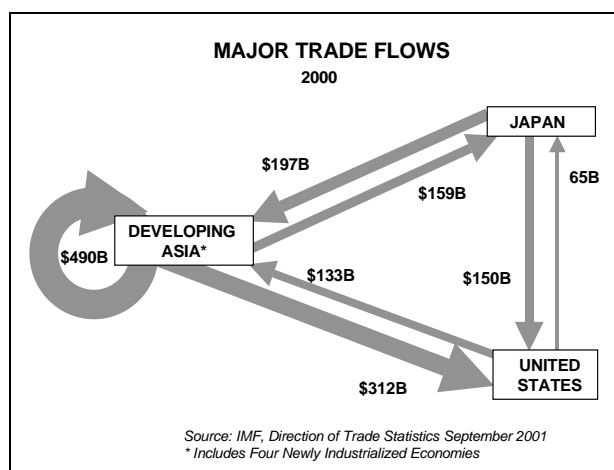


Figure C



- Foreign Direct Investment (FDI). Developing Asia is the major destination of world FDI into developing countries. It received \$61B in 2000, or 34% of all such flows. The Chinese economy received the largest part in 2000, \$42B, or 23% of all FDI flows into the developing world.
- Portfolio Investment. In 1993 portfolio investment began to expand dramatically in the region, as investors sought to profit from opportunities in the region. These investments plummeted in 1997 but subsequently resumed.
- Foreign aid continues to promote regional economic development, especially where private flows are unprofitable and where social benefits are key.

**America benefits** from our deepening economic inter-dependence with Asia-Pacific region, which has grown to become a vital American security interest. This interdependence is made possible by the security umbrella offered by U.S. presence.

- The Asia-Pacific region accounted for an estimated \$669B—or 33%—of total U.S. merchandise exports and imports in 2000.

**Linkages.** Some of the key linkage points in the network of international economic relations are energy, shipping, population and food, the environment, and defense spending.

**Energy** patterns in the Asia-Pacific region are driven by the interplay of traditional economic sectors—that generally rely on coal—and modern sectors that rely on oil.

- Japan is the world's second largest oil consumer, China ranks third, while South Korea is sixth.
- Oil accounted for 49% of the region's energy consumption in 2000, after excluding coal-intensive China and India.
- In both the United States and the Asia-Pacific region, oil consumption far exceeds indigenous production—making both increasingly vulnerable to political instability in the Middle East.

Figure D

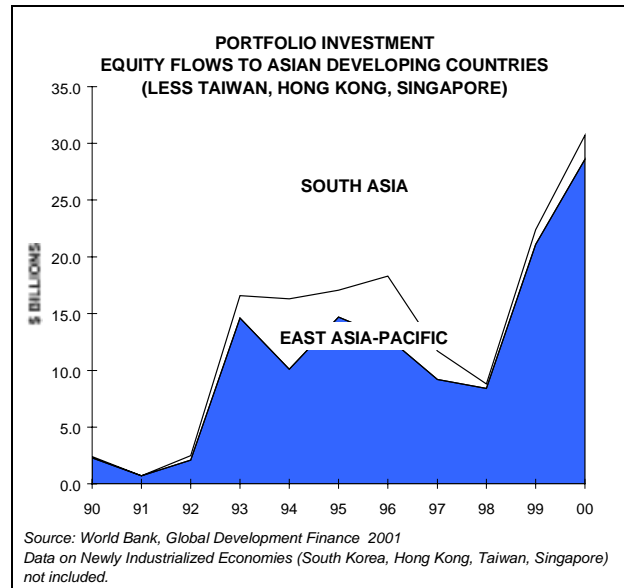
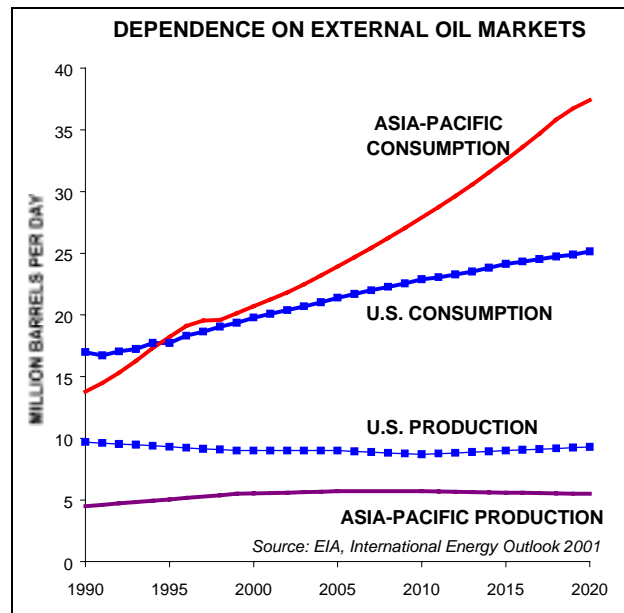


Figure E



**Shipping's** free flow along Asia-Pacific sea-lanes helps to maximize the region's trade and economic growth.

- All countries in the region have obvious economic interests in maintaining freedom of navigation, especially through the Strait of Malacca and the South China Sea.
- The existence of unresolved maritime and territorial claims in the South China Sea remains a source of potential instability to the region.
- Maritime piracy presents an ongoing threat to commercial shipping in Southeast Asia. The International Chamber of Commerce (ICC) International Maritime Bureau (IMB) Piracy Center in Kuala Lumpur, Malaysia, reported a worldwide increase in piracy of 57% to 469 cases in 2000. Asia was the site of 62% of these acts.
- Exclusive economic zones (EEZs) in the region are tested daily by foreign fishing fleets, as countries find it difficult to manage the resources in their EEZs.

**Population and food security** in the region are increasingly dependent on trade and transportation networks that links traditional agriculture with global food suppliers.

- The growth of the economies and populations of China and India—coupled with loss of arable land—increases global demand and prices for imported grain.
- Prudent governmental institutions are needed to ensure safe delivery of services to ever-increasing populations.

**Environmental and resource issues** are an underlying cause for many conflicts, disasters, or dislocations in the region.

- The military is often called upon to address these issues, whether for domestic or international purposes—during peacetime or war. Often, the military's supporting skills are in as much demand as their operational capabilities.
- Urban environmental issues will be especially costly for Asia's "megacities."

Figure F  
Major Trade Routes and Straits

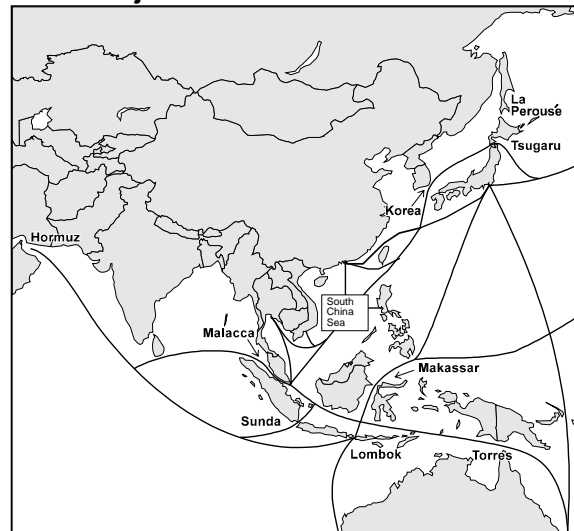


Figure G

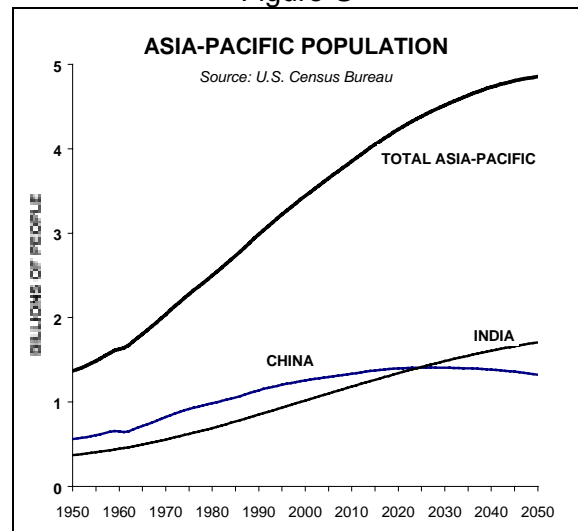


Figure H  
Population of Asia's Megacities

City	World Rank	1995 Millions	2015 Millions
Tokyo JP	1	26.96	28.89
Bombay IN	5	15.14	26.22
Shanghai CH	6	13.58	17.97
Calcutta IN	8	11.92	17.31
Seoul KO	10	11.61	12.98
Beijing CH	11	11.30	15.57
Osaka JP	12	10.61	10.61
Delhi IN	15	9.95	16.86
Tianjin CH	19	9.42	13.53
Manila RP	20	9.29	14.66
Jakarta ID	22	8.62	13.92

Source: UN Population Division

**Defense spending** is driven by both supply factors (wealth, arms merchandizing) and demand factors (security of borders, international interests, and domestic conditions).

- Budget managers find it difficult to identify a steady-state for calculating equipment needs and operational costs.
- Bad calculations may derive from false signals due to the combination of internal civil stresses and external challenges from neighbors.
- Ultimately, budgets need to be fully rationalized using a building block-approach that links ends, ways, and means.

A special section of Volume Two examines the role of governance, i.e., the practices and institutions that make an organization internally efficient and externally effective.

**Corporate Governance** is a key problem among Asia-Pacific countries. Asian companies cling to family-oriented practices and resist modern business practices. Further, free, open markets for business, capital, and labor need a backbone of prudently managed, governmental watchdog institutions. This modernization of business practices is a difficult one because entrenched powers find it difficult to operate under the checks and balances offered by transparent institutions, rules, and standards.

**Defense Governance** is a fledgling concept for many Asia-Pacific countries with a history of using the military for internal security operations. The survey suggests the benefits of the separation of military and police functions, of civilian control of the military, of strategic transparency efforts, and of bilateral and multilateral security cooperation.

The way ahead for USCINCPAC is shaped by the complexities of global economic trends, the threat of international terrorism, and the need to formulate programs that positively shape the political, military, and economic equation.

Figure I: Sustainability

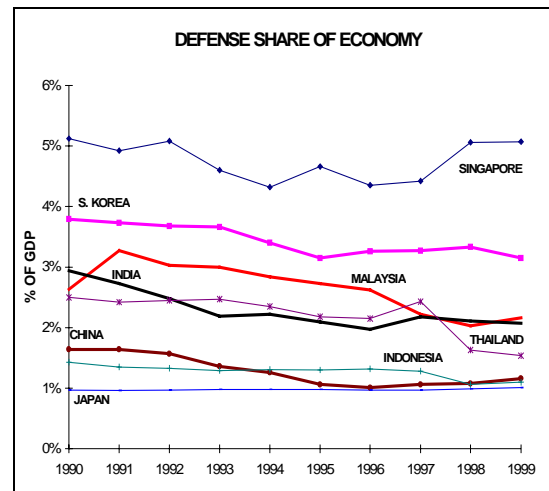


Figure J

